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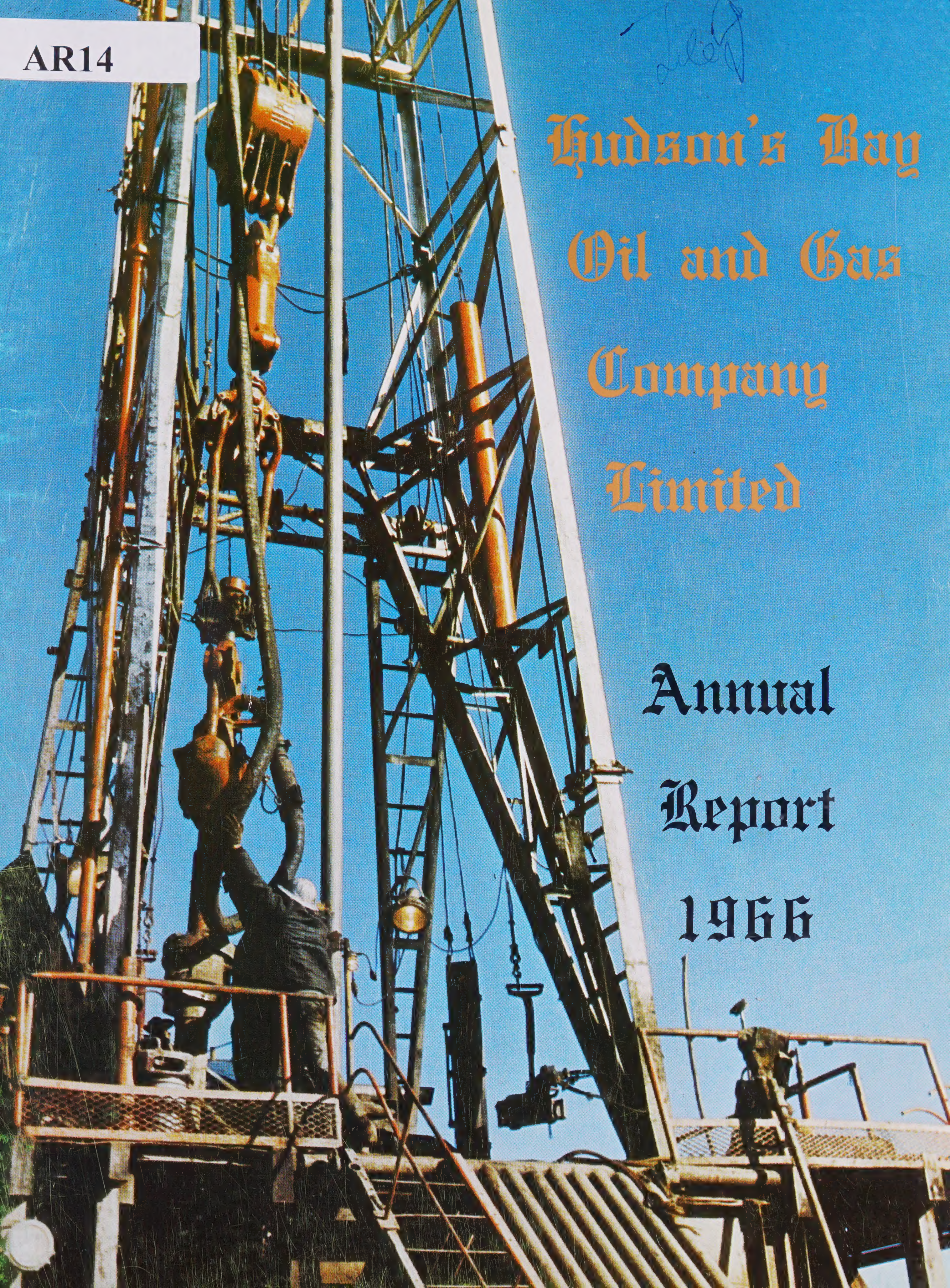
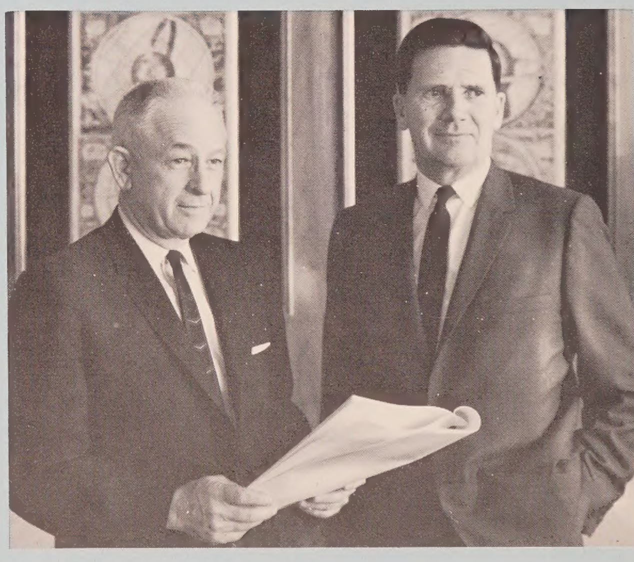


Hudson's Bay Oil and Gas Company Limited

Annual Report 1966

A. W. Tarkington, W. E. Glenn, G. T. Pearson

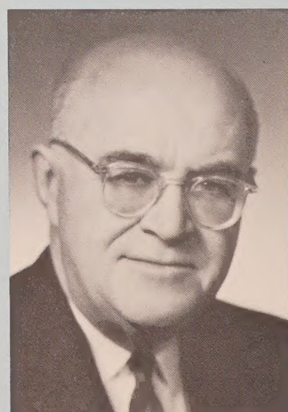
J. R. Murray, D. E. Kilgour



L. J. Richards, D. C. Jones

T. N. Beaupre

M. J. Foley



Herbert H. Lank

Board of Directors

A.W. TARKINGTON, Chairman, New York, President and a Director of Continental Oil Company

J. R. MURRAY, Vice-Chairman, Winnipeg, Managing Director of Hudson's Bay Company

T. N. BEAUPRE, Montreal, Chairman of the Board of Directors of Domtar Limited, and a Director of Hudson's Bay Company

M. J. FOLEY, Quebec, Vice-President and a Director of Anglo-Canadian Pulp and Paper Mills, Limited

W. E. GLENN, New York, Executive Vice-President and a Director of Continental Oil Company

D. C. JONES, Calgary, Executive Vice-President of the Company

D. E. KILGOUR, Winnipeg, President and a Director of The Great-West Life Assurance Company, and a Director of Hudson's Bay Company

HERBERT H. LANK, Montreal, Chairman of the Board of Directors of DuPont of Canada Limited

G. T. PEARSON, Houston, Senior Vice-President and a Director of Continental Oil Company

L. J. RICHARDS, Calgary, President of the Company

Officers

L. J. RICHARDS, President

D. C. JONES, Executive Vice-President

K. H. BURGIS, Financial Vice-President

R. J. HAMILTON, Vice-President, Exploration

S. G. OLSON, Vice-President, Production

R. F. HASKAYNE, Controller

F. J. MAIR, Treasurer

W. E. SELBY, Secretary

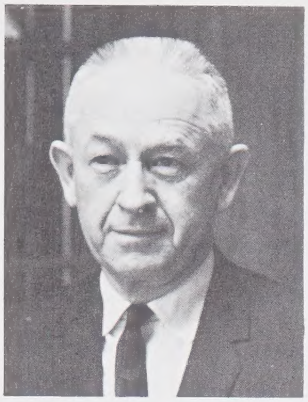
Contents

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at the Head Office of the Company on Friday, April 21, 1967 at 11:30 A.M. Notice of the meeting and proxy forms are being mailed with this report.

Financial and Operating Highlights

	1966	1965	Increase (Decrease)
FINANCIAL			
Gross Operating Revenues	$52,482,000	$47,217,000	11.2%
Net Cash Income Generated from Operations			
Total	$32,813,000	$29,444,000	11.4%
Per Share	$ 1.79	$ 1.61	11.4%
Net Earnings			
Total	$17,371,000	$15,355,000	13.1%
Per Share	$ .95	$ .84	13.1%
Dividend Declared			
Total	$ 7,318,000	$ 7,318,000	—
Per Share	$ .40	$ .40	—
Capital and Operating Expenditures for Finding and Developing Reserves	$29,503,000	$31,489,000	(6.3%)
OPERATING			
Crude Oil and Natural Gas Liquids Production—Net (Barrels Per Day)	42,456	38,890	9.2%
Natural Gas Sales—Net (Millions of Cubic Feet Per Day)	170	138	22.7%
Pipe Line Throughput (Barrels Per Day)	56,123	57,502	(2.4%)
Net Acreage at Year End	25,027,000	23,068,000	8.5%



L. J. RICHARDS
President

To The Shareholders:

Hudson's Bay Oil and Gas Company Limited experienced during 1966 another year of substantial growth in almost every phase of its operations. Net earnings and net cash income generated from operations established new records; production and sales of crude oil, natural gas liquids, natural gas and sulphur were all at new highs; crude oil and natural gas reserves were significantly enlarged; and capital expenditures for expansion and growth were larger than in any previous year except 1963 when they included the cost of acquiring two established producing companies.

EARNINGS AND DIVIDENDS

Net earnings for the year increased by 13.1% to $17,371,000 or 95 cents per share. Net cash income generated from operations rose by 11.4% to $32,813,000 or $1.79 per share. In view of the continuing heavy demands for capital investment, the annual dividend was maintained at the 40 cents per share rate established in 1965.

REVENUES AND PRODUCTION

Gross operating revenues for the year totalled $52,482,000, an increase of 11.2%. Slightly more than half of the gain was attributable to the continuing expansion of natural gas production and related operations with sales of natural gas up 22.7% to an average of 169.5 million cubic feet per day; production of natural gas liquids 13.2% higher at an average of 6,513 barrels per day; and sales of sulphur 12.4% larger at an average of 386 long tons per day. An 8.5% increase in crude oil production, to an average of 35,943 barrels per day, accounted for the remainder of the growth in operating revenues. The contribution from pipe line and related operations was down slightly due to a 2.4% decline in throughput volumes to an average of 56,123 barrels per day.

Reflecting the rapid rate of growth in natural gas and related operations, 33.5% of total operating revenues were derived from this source in 1966 as compared with 31.3% in the previous year. The share of revenues contributed by crude oil sales declined to 59.8% as compared with 61.1% in 1965.

EXPENDITURES

Expenditures for finding and developing reserves, including both capital and expense outlays, totalled $29,503,000 for the year as compared with $31,489,000 for 1965. Exploration expenditures, at $15,824,000 or 53.6% of the total, were down $2,186,000 from the prior year with increased spending on exploratory drilling and geophysical surveys more than offset by a reduction in outlays for undeveloped acreage. Significant discoveries resulting from this program are discussed in the exploration section of the report. Development expenditures totalled $13,679,000, an increase of $200,000, with larger outlays for development drilling and enhanced recovery projects partially offset by smaller expenditures for gas plant construction. Additions to reserves from discoveries, extensions and revisions exceeded by a very substantial margin the 15.5 million barrels of crude oil and natural gas liquids and 62 billion cubic feet of natural gas produced and sold during the year. The full extent of these discoveries is yet to be evaluated.

Capital outlays for pipe line facilities were considerably higher in 1966.

During the year $7,780,000 was spent on construction of 191 miles of 12-inch trunk line to connect the Company's system in central Alberta with its existing line from Pincher Creek to the United States border. Although an additional outlay of about $1,500,000 will be required to complete this project, the line was brought into service in January 1967 and will generate revenues for the full year.

FINANCING

Cash outlays in 1966 for capital expenditures, dividend payments and retirement of long-term debt exceeded cash income generated from operations by almost $10,000,000. The resulting cash deficiency and a similar deficit from the prior year were financed by short-term borrowings under a $20 million line of bank credit established in 1965. In December the Company elected to exercise the option conveyed by the terms of this credit to convert its total borrowings of $20 million to a term production loan repayable over five years. In view of the large capital expenditure program planned for 1967, the Company also arranged for the sale at par on January 3, 1967, of $10,000,000 7% First Mortgage Sinking Fund Bonds, Series E, maturing January 3, 1987.

INDUSTRY RESULTS AND OUTLOOK

The strong growth in demand for petroleum liquids and natural gas that has prevailed since 1961 resulted in further gains in industry production volumes. Production of crude oil and natural gas liquids was 9.8% higher at 1,013,000 barrels per day and sales of natural gas increased by 9% to 2.9 billion cubic feet per day. Sulphur production averaged 4,700 long tons per day, a gain of 7.1%, and sales averaged 5,000 long tons per day as world demand continued to absorb all current production and reduce inventories. Industry expenditures for finding and developing reserves were 2% to 3% below the record levels of the previous year with the most significant factor being a $30,000,000 reduction in expenditures for acquisition of acreage. Total footage of exploratory and development drilling declined by some 15%, but drilling expenditures did not change significantly as activity continued to shift to the more expensive northern areas of operations. With increasing dependence on seismic data in this northern area, total geophysical activity increased by 20%. Compilations of industry additions to recoverable reserves during 1966 are not yet available, but significant increases in crude oil reserves undoubtedly will be recorded from the many important new pools discovered in the Rainbow-Zama Lake area of northwestern Alberta and from the favourable finding experience in other areas of western Canada.

Another year of sustained industry growth appears assured for 1967. Expanding demand in both domestic and export markets should result in a further 7% to 8% increase in Canadian production of crude oil and natural gas liquids and an increase in gas sales in the range of 10% to 12%. Gas sales increases of similar magnitude can be anticipated beyond 1967 if pending export applications are approved by Canadian and United States regulatory authorities. Industry expenditures should continue at a high level in 1967. With the excellent results being obtained, particularly in northwestern Alberta, the current levels of geophysical and exploratory drilling activities should be maintained. Substantially larger expenditures for construction of gas plants and pipe lines will be required to meet scheduled increases in natural gas and crude oil deliveries.

OUTLOOK FOR THE COMPANY

The Company plans to carry out an aggressive and extensive program of expansion in 1967 with particular emphasis on exploratory drilling and gas plant construction. The major share of its exploratory drilling effort will be concentrated on large wholly-owned blocks of reservation acreage located on the Keg River reef trend in northwestern Alberta. An active development drilling program will also be carried on in 1967. Scheduled increases in natural gas sales from the Edson and Clarke Lake fields and commencement of deliveries from a new gas plant at Lone Pine Creek will be the major factors in an anticipated 10% increase in gas sales. A large program of gas plant and related construction will be initiated in 1967 to provide processing and delivery facilities for the substantial new volumes of gas contracted for deliveries commencing in the latter part of 1968. Projects now at the design or commitment stage will involve a total expenditure by the Company of $17,000,000 to $20,000,000 over the next two years.

DIRECTORS AND EMPLOYEES

During 1966 the Company accepted with sincere regret the resignations of three long-standing members of its Board of Directors, Messrs. L. F. McCollum, Ira H. Cram, and James A. Richardson. These gentlemen had served as Directors since 1948, 1953, and 1957 respectively. Mr. McCollum was Chairman of the Board for eight years from 1953 to 1961 and Mr. Cram also served in that capacity during the final two years of his term as Director. The leadership and wise counsel provided by these Directors contributed immeasurably to the progress achieved by the Company during the period of their service on the Board. Mr. A. W. Tarkington was elected Chairman of the Board and Messrs. Wayne E. Glenn, David E. Kilgour and G. T. Pearson were elected as Directors. Mr. Tarkington, President of Continental Oil Company, has been a Director of the Company since 1964. Messrs. Glenn and Pearson, both former presidents of the Company, are respectively an Executive Vice-President and a Senior Vice-President, as well as Directors, of Continental Oil Company. Mr. Kilgour is President of The Great-West Life Assurance Company and Chairman of the Canadian Committee and a Director of Hudson's Bay Company. Also during the year Mr. D. C. Jones, formerly Vice-President, Production, was elected Executive Vice-President and a Director to replace Mr. R. L. Adams who resigned from these offices to accept a senior position with Continental Oil Company. Mr. S. G. Olson was appointed Vice-President, Production.

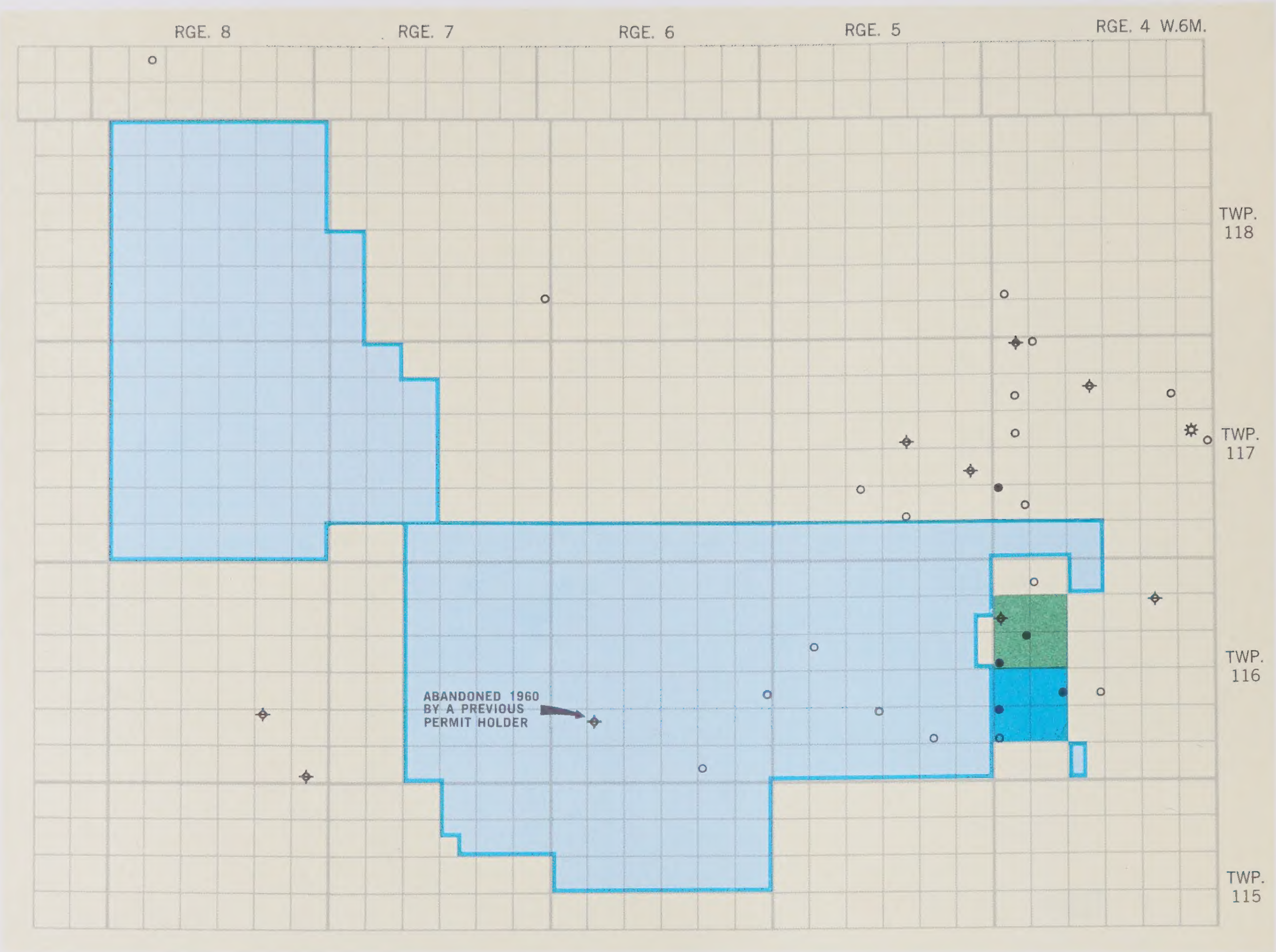
The Directors wish to record their recognition and appreciation of the vital contributions made by employees at all organizational levels to the successful operating results and growth achieved by the Company during the year.

Submitted on behalf of the Board of Directors:

L. J. Richards

Calgary, Alberta
March 15, 1967

President



ZAMA LAKE AREA

DECEMBER 31, 1966

COMPANY ACREAGE

- RESERVATION—100%
- LEASE—100%
- LEASE—50%

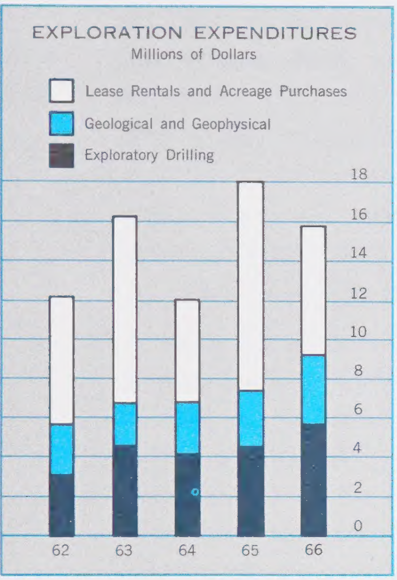
WELL LEGEND

- LOCATION OR DRILLING
- OIL WELL
- GAS WELL
- DRY AND ABANDONED

0 3 6
MILES

Map Showing Acreage Holdings of
Hudson's Bay Oil and Gas Company Limited
at December 31, 1966

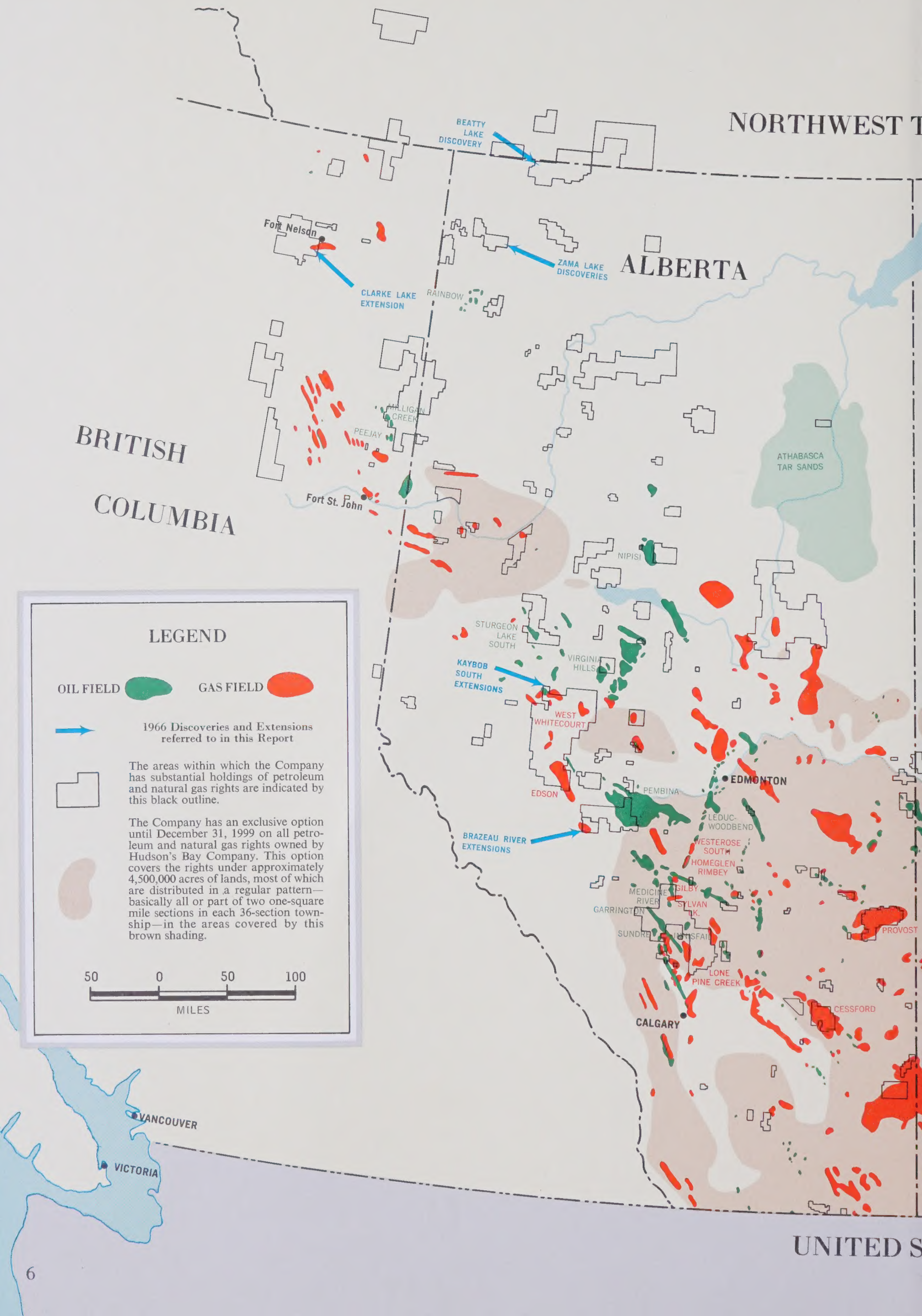
GENERAL REVIEW



EXPLORATION

General—The Company carried on an active exploration program in 1966 with exploratory drilling and geophysical activities reaching new highs. Exploration expenditures, including both capital and expense items, totalled $15,824,000 for the year. Outlays for exploratory drilling, at $5,873,000, were up $1,338,000 and the $2,207,000 spent on geophysical surveys represented an increase of $704,000. However the $3,775,000 expended for acquisition of undeveloped acreage was $4,072,000 less than in the preceding year with the result that total outlays for exploration were $2,186,000 below the record level of 1965.

At the first wholly-owned discovery in the Zama Lake area of northwestern Alberta, seismic lines were used for access to the drilling site. These paths cut through the bush and muskeg were originally used to conduct geophysical surveys prior to selecting the drilling location.



NORTHWEST T
BEATTY LAKE DISCOVERY
Fort Nelson
CLARKE LAKE EXTENSION
RAINBOW
ZAMA LAKE DISCOVERIES
ALBERTA
BRITISH COLUMBIA
MILLIGAN CREEK
PEEJAY
Fort St. John
ATHABASCA TAR SANDS
NIPISI
STURGEON LAKE SOUTH
VIRGINIA HILLS
KAYBOB SOUTH EXTENSIONS
WEST WHITECOURT
EDSON
PEMBINA
EDMONTON
LEDUC-WOODBEND
WESTEROSE SOUTH
HOMEGLEN RIMBEY
BRAZEAU RIVER EXTENSIONS
MEDICINE RIVER
GILBY
SYLVAN LK.
GARRINGTON
SUNDRE
INNISFAIL
LONE PINE CREEK
PROVOST
CESSFORD
CALGARY
VANCOUVER
VICTORIA
UNITED S
LEGEND
OIL FIELD
GAS FIELD
1966 Discoveries and Extensions referred to in this Report
The areas within which the Company has substantial holdings of petroleum and natural gas rights are indicated by this black outline.
The Company has an exclusive option until December 31, 1999 on all petroleum and natural gas rights owned by Hudson's Bay Company. This option covers the rights under approximately 4,500,000 acres of lands, most of which are distributed in a regular pattern—basically all or part of two one-square mile sections in each 36-section township—in the areas covered by this brown shading.
50 0 50 100
MILES


QUEBEC
ANTICOSTI ISLAND
ST. LAWRENCE RIVER
QUEBEC
GULF OF ST. LAWRENCE
NEWFOUNDLAND
NEW
BRUNSWICK
P. E. I.
CHARLOTTETOWN
MONCTON
FREDERICTON
SYDNEY
SAINT JOHN
MAINE
NOVA SCOTIA
HALIFAX
ATLANTIC OCEAN
RRITORIES
MANITOBA
SASKATCHEWAN
SASKATOON
REGINA
WINNIPEG
HUMMINGBIRD
DISCOVERY
FLAT LAKE
TES OF AMERICA

Discoveries and Extensions—Through its exploration activities, the Company participated in the discovery of several new fields and in the extension of a number of existing fields during the year. Of particular importance were oil discoveries at Zama Lake in northwestern Alberta and at Hummingbird in south central Saskatchewan, both of which have a potential for major additions to the Company's reserves. These and other significant discoveries and extensions are discussed in the following paragraphs and are identified on the map inserted at the beginning of this section.

At Zama Lake, four exploratory tests were completed as oil wells in Middle Devonian Keg River reefs. Each of these wells also encountered natural gas in the overlying Slave Point and Bistcho zones of the Middle Devonian. Two of these wells are located on a 2,560 acre lease block owned 50 per cent by the Company and two on a contiguous wholly-owned lease block of the same size. The Company also owns a 100 per cent interest in 89,280 reservation acres adjacent to these blocks. As shown on the accompanying map, six widely-spaced exploratory wells on the Company's wholly-

Significant Discoveries and Extensions in 1966

Name of Field or Area	Discoveries & Extensions Number	Discoveries & Extensions Nature	Producing Formation	Approximate Depth
Alberta				
Zama Lake	4	Oil & Gas	Devonian	4,800′
Kaybob South.	2	Gas	Devonian	10,600′
Brazeau River	2	Gas	Mississippian	10,300′
Beatty Lake.	1	Oil	Devonian	4,600′
Saskatchewan				
Hummingbird	1	Oil	Mississippian	6,200′
			Devonian	7,600′
British Columbia				
Clarke Lake.	1	Gas	Devonian	6,100′

owned acreage had been selected or were being drilled as of the year end. All of these tests have now been successfully completed as Keg River oil wells and a further series of six exploratory wells on this acreage is currently underway.

Another significant development since year end on Company acreage in this same general area was the successful completion of a Keg River oil well on a wholly-owned 11,520 acre reservation at East Rainbow, approximately 15 miles east of the Rainbow Lake field.

At Hummingbird the Company participated in a discovery well which encountered oil in both the Mississippian and Devonian formations. Three extension wells had been successfully completed by year end and an active drilling program will be continued in 1967 to delineate the extent of these reservoirs. The Company owns a 50% interest in the 5,760 acre lease block on which the discovery and extension wells were drilled and has a 100% interest in some 350,000 permit acres surrounding this lease block.

In west central Alberta two exploratory wells extended the present limits of the Kaybob South gas condensate field by approximately 3½ miles. Most of this important gas-condensate reservoir is located on approximately 10,000 acres of leases in which the Company has a 50% interest. Construction of a plant to remove condensate and sulphur from the gas by a re-cycling scheme is scheduled to commence in 1967.

In the Brazeau River area, 25 miles southeast of the Edson gas field, two successful extension wells were drilled 2¾ and 4 miles northeast of a discovery made in 1965 and confirm the presence of an important gas reservoir in a Mississippian formation. The Company has a 100 per cent interest in the 26,000 acre block of leases on which these three wells are located and has other extensive holdings in the area.

A successful extension well at Clarke Lake in northeastern British Columbia extended this large natural gas field to the north by approximately one mile and substantially improved the Company's share of the gas reserves and deliverability in this reservoir. This field has been on production since 1965 with the gas being sold to Westcoast Transmission Company Limited.

In the Beatty Lake area of northern Alberta, three miles south of the Northwest Territories boundary, oil was discovered in a Middle Devonian formation on a 5,760 acre lease block wholly-owned by the Company. This discovery represents the first oil to be found in this general area where the Company has very extensive land holdings. Additional drilling is planned for 1967 to determine the commercial significance of this discovery.

Acreage Holdings—During 1966 the Company acquired 2,232,000 acres of undeveloped land. These acquisitions included 2,024,000 acres purchased at a cost of $3,775,000 and 208,000 acres obtained through filings and other acquisitions that did not require bonus payments.

Among the more significant acquisitions were a 480 acre lease in the Nipisi field in Alberta purchased for $729,000 and two blocks of permits in the Northwest Territories—491,000 acres in the Fort Simpson area purchased for $556,000 and 192,000 acres at West Cameron Hills for $959,000. In Saskatchewan the Company almost doubled its holdings of Crown permits and reservations through the addition of 1,293,000 acres in 16 blocks at various locations at a cost of $1,115,000.

The Company surrendered or released its interests in 1,210,000 acres of undeveloped lands in 1966. These included 827,000 acres released after geological and geophysical evaluation; 286,000 acres surrendered under government regulations on conversion of permits and reservations to lease status; and interests equivalent to 97,000 net acres assigned to other companies for the drilling of wells on Company lands. In addition 37,000 acres were transferred to the fully or partially developed category.

At December 31, 1966 the Company held 24,644,000 acres of undeveloped lands acquired for a total cost of $28,598,000, an average of $1.16 per acre. Rental payments in 1966 totalled $2,857,000, an average of 12 cents per acre.

Undeveloped Net Acreage Holdings December 31, 1966

Location	Crown Permits or Reservations (1)	Leaseholds	Options to Lease Hudson's Bay Company Lands	Fee Lands	Total
Alberta	2,944,000	1,887,000	1,519,000	84,000	6,434,000
British Columbia	567,000	452,000	6,000	—	1,025,000
Saskatchewan	2,686,000	85,000	2,324,000	101,000	5,196,000
Yukon & N.W.T.	2,033,000	—	—	—	2,033,000
Maritime Provinces	9,167,000	—	—	—	9,167,000
Other	—	—	700,000	89,000	789,000
	17,397,000	2,424,000	4,549,000	274,000	24,644,000

(1) Convertible into leases to the extent of approximately 50%.

At Hummingbird, on the prairie of south central Saskatchewan, oil was discovered in both Mississippian and Devonian formations. The discovery location is shown on the right, while the first follow-up well appears in the background approximately one-quarter mile away.

WELL COMPLETIONS

	1966		1965	
	Gross	Net	Gross	Net
EXPLORATORY				
Oil	14	9.5	12	7.2
Gas	14	9.0	8	4.2
Dry	75	40.0	49	28.9
Total	103	58.5	69	40.3
Average Depth		5,057′		5,426′
DEVELOPMENT				
Oil	60	34.8	74	38.4
Gas	37	9.8	31	10.3
Dry	22	12.1	21	11.0
Total	119	56.7	126	59.7
Average Depth		5,575′		5,578′

DRILLING

In 1966 the Company participated in the drilling of 222 wells, which included 103 exploratory tests and 119 development wells. In addition the Company supported, with contributions of acreage, the drilling of 11 exploratory wells on lands adjacent to its holdings which assisted in evaluating Company properties.

The Company's participation in 103 exploratory completions, equivalent to 58.5 net wells, represented a new record for exploratory drilling and resulted in 28 discoveries or extensions. These exploratory completions included 52 gross (24.7 net) wells in which the major part of the drilling cost was borne by other companies in exchange for a partial interest in the Company lands on which they were drilled. These farmout wells resulted in 10 discoveries, in each of which the Company retains a 50% interest. On a net well basis, the geographical distribution of the Company's exploratory completions was 31.8 wells in Alberta, 21.8 in Saskatchewan, 4.4 in British Columbia, and 0.5 in the Northwest Territories.

The Company's interest in the 119 development wells completed during 1966 was equivalent to 56.7 net wells, a reduction of 3.0 net wells from the previous year. By province, these net wells were distributed as follows: Alberta 29.9, Saskatchewan 23.5 and British Columbia 3.3. Drilling in the Nipisi field of Alberta and in the Delta and Flat Lake fields of Saskatchewan accounted for almost one-half of the 34.8 net oil well completions. A majority of the 9.8 net gas wells completed during the year were in four Alberta fields—Edson, Lone Pine Creek, Windfall and Sylvan Lake.

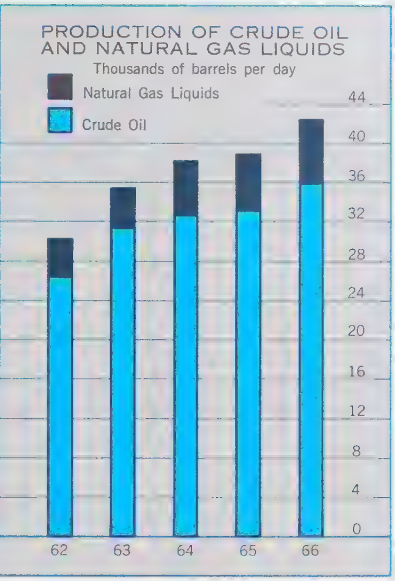
CRUDE OIL PRODUCTION — NET
Daily Average Barrels

	1966	1965
ALBERTA		
Pembina	7,284	7,929
Sundre	1,854	1,791
Virginia Hills	1,813	1,587
Kaybob South	1,433	1,406
Sturgeon Lake South	1,376	1,124
Medicine River	1,032	1,073
Innisfail	941	924
Cessford	918	775
Garrington	731	988
Sylvan Lake	637	562
Other Fields	7,837	7,297
Total	25,856	25,456
SASKATCHEWAN		
Success	1,475	1,406
Other Fields	3,351	3,176
Total	4,826	4,582
BRITISH COLUMBIA		
Milligan Creek	3,821	2,382
Peejay	956	165
Other Fields	470	536
Total	5,247	3,083
MANITOBA	14	13
Total	35,943	33,134

PRODUCTION

Crude Oil—The Company again established a new record for crude oil production in 1966, the eighth consecutive year that gains have been achieved. Production for the year averaged 35,943 barrels per day (net after deduction of royalties), an increase of 2,809 barrels per day or 8.5% over the 1965 rate. Production from wells completed during the year and the additional production obtained from a full year's operation of wells completed in 1965 contributed 2,086 barrels per day to the average rate for 1966. Increased production from enhanced recovery projects also contributed 1,648 barrels per day, of which 1,439 barrels per day were from the Milligan Creek field in British Columbia. Gains were also derived from higher allowable production rates in a number of Alberta fields resulting from a 10.6% increase for the year in total demand for Alberta crude. The average wellhead price received by the Company from sale of its 1966 production was $2.379 per barrel, a decrease of one-half cent per barrel from the prior year's average.

Good progress was made during the year in the installation and expansion of enhanced recovery projects. New installations were completed in the Medicine River and Pembina fields in Alberta and in the Wildmint field in British Columbia. Existing facilities in the Virginia Hills field in Alberta and the South Success field in Saskatchewan were expanded during the year. Projects in eight other fields were initiated during the year and are scheduled for completion in 1967. Substantial benefits will be derived from these projects, both from the improvement or maintenance of current rates of production and from the ultimate recovery of a greater percentage of the oil in place in the reservoirs.



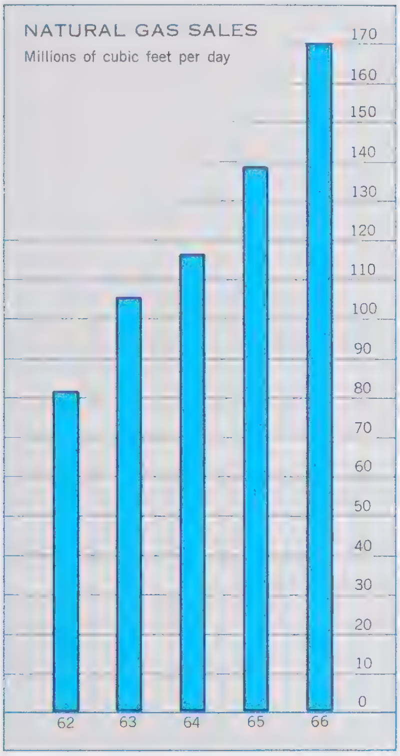
Enhanced recovery facilities at the Milligan Creek field in northeastern British Columbia where the Company has a 50% interest in this partner-operated project. The artificial lake provides a water supply which, after chemical treatment, is pumped into the producing formation to increase the recovery of crude oil.

Continuing emphasis was given during the year to the unitization of Company producing properties with those owned by other companies in the same field. The consolidation of separate producing operations in a field into one operating unit managed by a single operator has proven an efficient and economic method of providing for the construction and operation of enhanced recovery projects and gas processing facilities. During 1966, the Company participated in the formation of 15 units and was engaged in the study and negotiation of an additional 30 unitization projects. At year end, the Company had a participating interest in 118 units and was the operator of 14 of them.

Natural Gas and Associated Products—The rapid expansion in the Company's gas operations continued in 1966 with production and sales of natural gas, natural gas liquids and sulphur again reaching new highs. Natural gas sales averaged 169.5 million cubic feet per day, an increase of 22.7% over the 1965 volume. Production of natural gas liquids averaged 6,513 barrels per day, a 13.2% gain, and sulphur sales averaged 386 long tons per day, an increase of 12.4%.

Approximately 80% of the increase in natural gas sales was attributable to a full year's operation of the large gas processing plant in the Edson field which was brought on stream in November 1965. Further substantial gains in sales from this field will occur in 1967 and 1968 as sales contracts with Trans-Canada Pipe Lines Limited provide for a 50% increase in minimum daily delivery volumes from November 1, 1966 and for a further increase of a similar volume on November 1, 1967. The remainder of the Company's 1966 gains in gas sales primarily reflects the first full year of sales from the Clarke Lake and Sylvan Lake fields and increased deliveries from the West

The Sylvan Lake gas plant in the midst of farm lands of Central Alberta, is owned 29% and operated by the Company. At capacity this facility can process 50 million cubic feet of raw gas per day, yielding approximately 46 million cubic feet of sales gas and 700 barrels of natural gas liquids.



NATURAL GAS SALES — NET

Millions of Cubic Feet Per Day

	1966	1965
Cessford	41.0	46.3
West Whitecourt	37.0	34.9
Edson	28.1	2.3
Pembina	8.8	8.6
Sylvan Lake	8.6	4.4
Clarke Lake	8.0	2.7
Westerose South and Homeglen-Rimbey	6.1	6.3
Provost	4.4	4.1
Gilby	3.6	3.9
Other Locations	23.9	24.7
Total	169.5	138.2

NATURAL GAS LIQUIDS PRODUCTION — NET

Daily Average Barrels

	1966	1965
West Whitecourt	4,235	3,951
Harmattan-Elkton	523	460
Westerose South and Homeglen-Rimbey	542	549
Edson	280	21
Other Locations	933	775
Total	6,513	5,756

Whitecourt plant. Partially offsetting these gains was a reduction in sales from the Cessford field which temporarily benefitted in 1965 from a one year contract for additional volumes. The average price realized from 1966 gas sales was 14.56 cents per thousand cubic feet, virtually unchanged from the prior year.

The increase of 757 barrels per day in natural gas liquids production primarily represents the additional volume of condensate derived from a full year's operation of the Edson plant and from the larger volume of gas processed at the West Whitecourt plant. Production of propane and butane also increased, largely due to expanded extraction facilities at the Harmattan-Elkton plant. The average price received for natural gas liquids was $2.48 per barrel, down two cents per barrel.

Most of the 12.4% gain in 1966 sulphur sales was attributable to increased production at West Whitecourt plant and reflects both a larger volume of gas processed and an increase in the hydrogen sulphide content of the gas. The proportion of hydrogen sulphide in this gas stream will continue to increase for a number of years due to the manner in which the fields serviced by the plant are being produced. At this plant, which accounted for 88.7% of the Company's total sulphur sales volumes in 1966, the hydrogen sulphide gas removed from the raw gas stream is sold in that form to a major sulphur producer at a price per ton of contained sulphur that varies with prevailing sulphur prices. Due to adjustments relating to the estimated prices recorded for such sales in 1965, the revenues recorded per ton of 1966 sales were lower than for the preceding year. The remainder of the Company's sulphur sales represents production from plants where it shares in the ownership of the processing facilities and in the operating costs necessary to convert hydrogen sulphide gas into elemental sulphur.

The Company spent $4,788,000 during 1966 on construction of gas processing and gas gathering facilities. The largest of these projects is a processing plant and gathering system at Lone Pine Creek in central Alberta that is scheduled for completion in March 1967. The Company will have approximately a 64% ownership interest in the plant and will operate the facilities. Its net share of the plant output should average approximately 9 million cubic feet per day of natural gas, 240 barrels per day of natural gas liquids and 22 long tons per day of sulphur. Other significant projects in the year were: an addition to the gas gathering system at Edson to meet a scheduled increase in deliveries under the gas sales contracts; and commencement of construction on a gathering system, scheduled for completion in April 1967, to connect the natural gas reserves in the North West Pine Creek field to the Whitecourt complex.

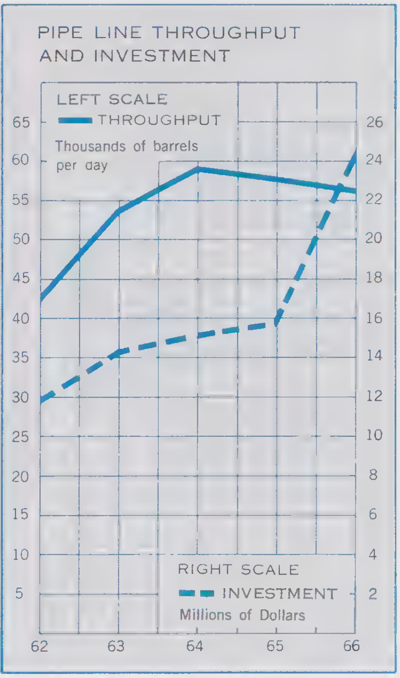
Construction on the Sundre-Pincher Creek pipe line in the foothills area of southwestern Alberta. Here, the pipe at the approach to the crossing of the Highwood River 40 miles south of Calgary, awaits coating and wrapping before final installation in the ditch. The pipe line has already been installed in the river bed and the excavation backfilled.

SUPPLY AND TRANSPORTATION

Early in 1966 the Company expanded the scope of its crude oil trading and pipe line operations to include the marketing and transportation of butane and propane. These trading operations afford opportunities to improve the prices obtained by the Company on its sales of crude oil, condensate and liquified petroleum gases.

The volume of crude oil and natural gas liquids gathered and transported through the Company's pipe line systems averaged 56,123 barrels per day in 1966. This was 2.4% less than the average throughput in the previous year and primarily reflects a lower volume of receipts from a connecting carrier.

Additions and extensions to the Company's pipe line systems during the year cost $8,533,000 and brought the total investment in pipe line properties



to $24,241,000 at year-end. At that date these properties comprised 391 miles of trunk lines and 334 miles of gathering facilities. The major addition in the year was 191 miles of 12-inch trunk line, constructed at a cost of $7,780,000 to connect the Company's system in central Alberta with its existing line from Pincher Creek to the United States border. This new line was brought into interim operation in January 1967 but the expenditure of an additional $1,500,000 will be required during the current year to finalize the line construction and install permanent pumping stations and remote control equipment.

In addition to its own pipe line operations, the Company has a 14% interest in Peace River Oil Pipe Line Company Ltd. and a 4% interest in Producers Pipelines Ltd. These companies operate crude oil gathering and trunk line systems in northwestern Alberta and southwestern Saskatchewan respectively.

EMPLOYEES

The larger operating and capital investment programs carried out in 1966 necessitated a net addition of 39 employees to the Company's work force. This brought the year-end total to 613 employees.

The total of salaries, wages and employee benefit costs for the year amounted to $5,249,000, an increase of 23.0% over 1965. Salaries and wages, at $4,521,000, were up 23.0%. The Company's comprehensive employee benefit programs cost $728,000, an increase of 23.0%, and were equivalent to 16% of salaries and wages paid. In both cases the higher costs for the year resulted from the growth in number of employees, a 25 cents per hour general wage increase to hourly-paid employees in January 1966, and a corresponding enlargement in the increases awarded to salaried employees on an individual performance basis.

The Company's Retirement Plan was amended coincident with the introduction of the mandatory Canada Pension Plan on January 1, 1966. Employee contributions were reduced by the amount of their payments to the government plan and the benefits of the two plans were integrated to generate essentially the same level of retirement income as was previously provided by the Company plan. At the same time the Company plan was amended to provide for earlier vesting of Company contributions and to eliminate the requirement of one year's service to qualify for participation. The benefits program was also expanded during the year to make Accidental Death and Dismemberment Insurance available to employees at low group rates on a voluntary participation basis.

Training and education directed toward improving the skills and knowledge of the Company's employees received continuing attention in 1966. In view of the prospective expansion in Company operations, most of the employee seminars and programs provided during the year were oriented toward the development of supervisory and management skills. Through its Employee Educational Refund Plan, the Company also encouraged employees to enroll in educational courses related to their career development.

A continuing emphasis on sound safety practices was reflected in the Company's low rates of personal injuries and automotive accidents. A number of government and industry awards were received in recognition of this achievement. Within the Company, awards were made during the year to six field employee groups for completion of twelve or more months of accident-free operations.

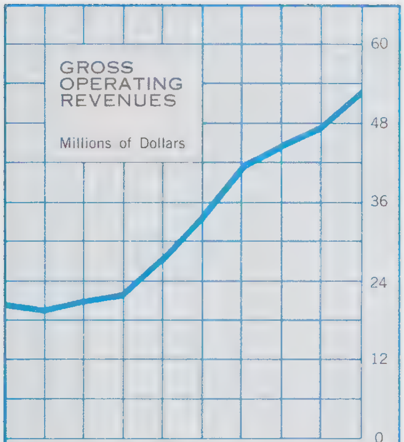
FINANCIAL

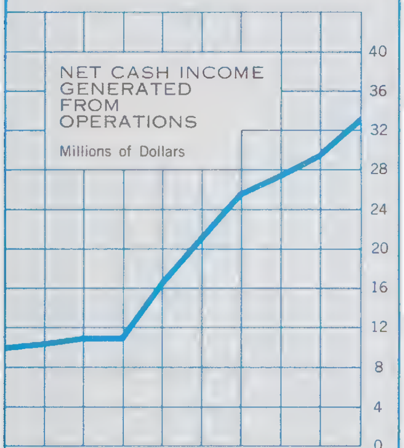
In 1966 the Company again achieved new highs in earnings and cash generation. Consolidated net earnings were $17,371,000 or 95 cents per share, a 13.1% increase over the previous record of $15,355,000 or 84 cents per share earned in 1965. Net cash income generated from operations reached $32,813,000 or $1.79 per share, 11.4% higher than the $29,444,000 or $1.61 per share generated in the preceding year.

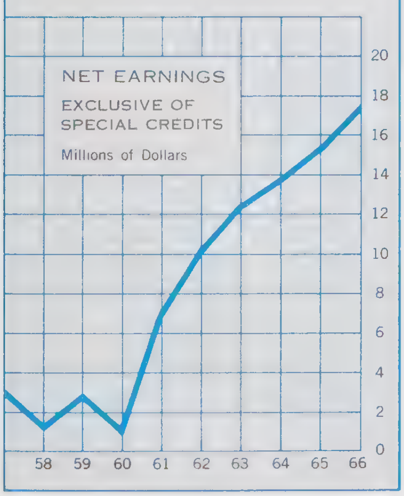
The annual dividend on the Company's capital stock was maintained at 40 cents per share for 1966. This dividend was paid on January 23, 1967 to all shareholders of record at close of business on December 30, 1966.

Gross operating revenues for the year totalled $52,482,000, an improvement of $5,265,000 or 11.2%. The major sources of operating revenues and the increases over the prior year are shown in the following summary:

Gross Operating Revenues	Amount in 1966	Increase (Decrease) Over 1965 Amount	Per Cent
Sales of crude oil	$31,358,000	$2,491,000	8.6
Sales of natural gas liquids	5,826,000	630,000	12.1
Sales of natural gas	9,009,000	1,670,000	22.8
Sales of sulphur	1,527,000	99,000	6.9
Revenues from processing non-owned gas	1,197,000	377,000	46.0
Revenues from pipe line and related operations	3,565,000	(2,000)	(.1)
Total	$52,482,000	$5,265,000	11.2







The increases achieved in the product sale categories were almost entirely attributable to larger volumes as there were practically no changes in the average prices received. The processing of larger volumes of non-owned gas on a fee basis at plants in which the Company has an ownership interest accounted for the gain in this category of revenue. The small decline in pipe line and related revenues resulted from slightly lower pipe line throughput volumes.

Expenses for the year totalled $35,893,000, an increase of $3,454,000 or 10.6%. Cash expenses were up $2,101,000 or 11.4% with more than two-thirds of the increase resulting from an expanded exploration program and growth in volume of operations. The other major item was the additional interest cost on the larger volume of borrowings outstanding in the year. Non-cash expenses increased by $1,353,000 or 9.6% due primarily to larger depreciation charges on the growing investment in fixed assets and to the reduction in 1965 charges that resulted from offsetting gains on disposals of assets at prices in excess of their depreciated book values.

As explained in Note 6 to the financial statements, no provision for income taxes was required in 1966 as the Company and its subsidiaries were able to offset earnings for the year against their accumulated excess of tax-deductible expenses carried forward from prior years. At year end the aggregate of these carry-forwards was approximately $23,000,000 after an estimated reduction of $10,000,000 in 1966. The annual change in the amount of accumulated deductions carried forward can vary as it is dependent not only on the difference between revenues and operating expenses for the year but also on the amount of capital expenditures in the year that qualify as current deductions for tax purposes.

A substantially larger capital expenditure program was carried out in 1966 with total outlays reaching $32,217,000 as compared with $27,070,000 in the preceding year. The major factor in the increase was the cost of constructing the new 191-mile pipe line described in the Supply and Transportation section of this report. Capital expenditures on exploration and development activities, at $23,327,000 were $2,534,000 less than in 1965 and there was a marked change in the composition of these expenditures. The amounts spent on land acquisition and gas plant construction were considerably smaller than in 1965—reductions of $4,072,000 and $1,073,000 respectively—but outlays for drilling and equipping new wells and for enhanced recovery projects were increased by $2,249,000 and $362,000 respectively.

During the year the Company drew down the remaining $14,500,000 available under a line of credit arranged with its bankers in 1965 and

exercised the option conveyed by the terms of the credit to convert its total bank borrowings of $20,000,000 to a term production loan. This term loan is secured under Section 82 of the Bank Act by an assignment of the Company's interests in the reserves underlying specified petroleum and natural gas rights and is repayable commencing July 1, 1967 in twenty equal quarterly installments. Subsequent to the year end the Company further strengthened its cash and working capital position by the sale and delivery on January 3, 1967 of $10,000,000 7% First Mortgage Sinking Fund Bonds, Series E. These bonds mature January 3, 1987 and are subject to sinking fund requirement commencing January 3, 1971 at a rate of $500,000 per annum for two years and $600,000 per annum thereafter. The issue was placed privately at par with institutional investors.

Consolidated Statement of Sources and Uses of Funds

YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
SOURCES OF FUNDS		
Net cash income generated from operations	$32,813,000	$29,444,000
Proceeds from sale of properties and investments	953,000	1,533,000
Term loan	14,500,000	5,500,000
TOTAL FUNDS AVAILABLE	$48,266,000	$36,477,000
USES OF FUNDS		
Expenditures fc property, plant and equipment	$32,217,000	$27,070,000
Reduction of long-term debt	3,147,000	1,200,000
Dividend declared	7,318,000	7,318,000
Miscellaneous — net	398,000	595,000
TOTAL FUNDS USED	$43,080,000	$36,183,000
RESULTING INCREASE (DECREASE)		
In cash and short-term investments	$ 5,627,000	$ (356,000)
In other working capital items	(441,000)	650,000
IN TOTAL WORKING CAPITAL	$ 5,186,000	$ 294,000

See accompanying notes

Hudson's Bay Oil and Gas Company Limited

and Subsidiary Companies

Consolidated Statement of Earnings

YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
REVENUES		
Gross operating revenues	$52,482,000	$47,217,000
Interest, dividends, rentals and other	782,000	577,000
	53,264,000	47,794,000
CASH EXPENSES		
Exploration	6,176,000	5,628,000
Production	8,501,000	7,752,000
Pipe line	923,000	766,000
General administrative (Note 5)	1,608,000	1,367,000
Interest on long-term debt	3,002,000	2,516,000
Other interest charges	241,000	321,000
	20,451,000	18,350,000
NET CASH INCOME GENERATED FROM OPERATIONS	32,813,000	29,444,000
NON-CASH EXPENSES		
Depletion	4,895,000	4,905,000
Depreciation	5,125,000	4,438,000
Amortization of undeveloped acreage	1,600,000	1,411,000
Dry holes and abandonments	3,810,000	3,791,000
Other items—net	12,000	(456,000)
	15,442,000	14,089,000
NET EARNINGS (Notes 2 and 6)	$17,371,000	$15,355,000

Consolidated Statement of Retained Earnings

YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
Balance at Beginning of Year	$40,885,000	$32,848,000
Net Earnings for Year	17,371,000	15,355,000
	58,256,000	48,203,000
Dividend Declared	7,318,000	7,318,000
Balance at End of Year	$50,938,000	$40,885,000

See accompanying notes

Consolidated Balance Sheet –

ASSETS

	1966	1965
CURRENT ASSETS		
Cash	$ 948,000	$ 821,000
Short-term investments at cost, which approximates market	5,500,000	—
Accounts receivable (Note 7)	14,110,000	10,059,000
Inventories of crude oil and supplies at or below average cost	2,378,000	2,787,000
Total Current Assets	22,936,000	13,667,000
INVESTMENTS IN NON-CONTROLLED COMPANIES AT COST	1,107,000	1,095,000
PROPERTY, PLANT AND EQUIPMENT AT COST (Notes 2 and 3)	265,950,000	240,752,000
LESS: Accumulated depreciation, depletion and amortization	84,726,000	75,358,000
	181,224,000	165,394,000
OIL AND GAS RIGHTS ON HUDSON'S BAY COMPANY LANDS (Note 4)	1,000	1,000
UNAMORTIZED BOND DISCOUNT AND EXPENSE	409,000	449,000
OTHER ASSETS	1,940,000	1,430,000
	$207,617,000	$182,036,000

Approved on behalf of the Board:

L. J. Richards, DIRECTOR

D. G. Jones, DIRECTOR

December 31, 1966 and 1965

LIABILITIES AND SHAREHOLDERS' EQUITY

	1966	1965
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$ 11,788,000	$ 9,545,000
Dividend payable (Note 7)	7,318,000	7,318,000
Long-term debt due within one year (Notes 8 & 9)	2,100,000	260,000
Total Current Liabilities	21,206,000	17,123,000
LONG-TERM DEBT		
Term loan (Note 8)	18,000,000	5,500,000
First mortgage sinking fund bonds (Note 9)	48,653,000	49,800,000
	66,653,000	55,300,000
DEFERRED CREDIT RE OFFICE BUILDING (Note 10)	1,458,000	1,366,000
SHAREHOLDERS' EQUITY		
Share capital, par value $2.50 per share		
Authorized: 25,000,000 shares		
Issued: 18,294,044 shares	45,735,000	45,735,000
Contributed surplus	21,627,000	21,627,000
Retained earnings	50,938,000	40,885,000
	118,300,000	108,247,000
	$207,617,000	$182,036,000

Contingency (Note 11)

See accompanying notes

Notes to the Consolidated Financial Statements

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of Hudson's Bay Oil and Gas Company Limited and its subsidiary companies, each of which is wholly owned.

(2) Accounting Principles:

Exploration expenses are charged against earnings as incurred.

All acreage costs are capitalized when acquired. A regular charge is made to earnings for "Amortization of undeveloped acreage" and when undeveloped acreage is surrendered its cost is charged against the accumulated amortization. When acreage is proven to be productive its original cost is transferred to the developed acreage account. Costs of developed acreage holdings are written off over their producing lives by a depletion charge calculated on a unit-of-production basis. The depletion charge per unit of production applicable to each holding is obtained annually by dividing the remaining net cost of the holding by its remaining reserves of saleable products.

All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production its cost is immediately written off against earnings. The costs of successful wells, other than equipment costs, are written off by depletion charges on a unit-of-production basis in the same manner as the costs of developed acreage.

Pipe line equipment costs are written off through depreciation charges calculated on a unit-of-throughput method based on the estimated remaining reserves in the fields served by the pipe lines.

Other equipment is depreciated on a straight-line basis at rates estimated to write off the costs over the useful lives of the assets.

On consolidation the amount by which the purchase price of shares of subsidiaries exceeded their net book values has been allocated to the related assets, and additional depreciation, depletion, and amortization has been provided accordingly.

(3) Property, Plant and Equipment:

	Gross Property Accounts	*Accumulated Depreciation*	*Accumulated Depletion*	*Accumulated Amortization*	*Net Property Accounts*
Undeveloped acreage	$ 28,598,000	$ —	$ —	$2,368,000	$ 26,230,000
Fully or partially developed acreage	30,874,000	—	8,439,000	—	22,435,000
Wells and related facilities	148,923,000	21,044,000	43,035,000	—	84,844,000
Plants and related facilities	31,844,000	4,537,000	—	—	27,307,000
Pipe line property	24,241,000	4,582,000	—	—	19,659,000
Other	1,470,000	721,000	—	—	749,000
Total—December 31, 1966	$265,950,000	$30,884,000	$51,474,000	$2,368,000	$181,224,000
Total—December 31, 1965	$240,752,000	$26,125,000	$46,888,000	$2,345,000	$165,394,000

(4) Oil and Gas Rights on Hudson's Bay Company Lands:

The Company has an exclusive option until December 31, 1999, to lease any or all of the petroleum and natural gas rights owned by Hudson's Bay Company. The exercise of this option requires no bonus payment. At December 31, 1966, this option covered the rights under 4,549,000 acres of land in the Provinces of Alberta, Saskatchewan, Manitoba and British Columbia, exclusive of the lands already under lease. A nominal value of $1,000 has been assigned to these rights.

(5) Amounts Paid to Directors:

Total remuneration received by Directors, including salaries and benefits as officers, from the Company and its subsidiaries was $134,000.

(6) Income Taxes:

Under the provisions of the Income Tax Act and Regulations, the Company and each of its subsidiaries is permitted to deduct currently exploration expenses, acreage costs and the costs of drilling both successful and unsuccessful wells and to carry forward any excess of such deductions over income. They are also allowed for income tax purposes to deduct capital cost allowances greater than the depreciation recorded in their accounts. As a result of using these provisions, no income taxes were payable by any of the companies in respect of 1966 operations and, at December 31, 1966, the companies had accumulations of unused deductions totalling approximately $23,000,000 to apply against their taxable incomes of future years. The comparable accumulations at December 31, 1965 totalled approximately $33,000,000.

(7) Amounts Owing To and From Affiliated Companies:

Accounts receivable and accounts payable include amounts of $2,146,000 and $52,000 respectively which resulted from transactions in the normal course of business with Continental Oil Company and its subsidiaries. Dividend payable includes $4,810,000 due to Continental Oil Company.

(8) Term Loan:

The term loan of \$20,000,000 outstanding at December 31, 1966 is secured under Section 82 of the Bank Act (Canada) by an assignment of the Company's interest in hydrocarbon reserves underlying certain properties, other than those specifically pledged under the Company's Deed of Trust and Mortgage securing its First Mortgage Sinking Fund Bonds.

Interest is payable monthly at the prime bank rate. The loan principal is repayable in 20 equal quarterly installments commencing July 1, 1967. The principal payments due within one year are \$2,000,000 and accordingly this amount has been included in Current Liabilities.

(9) First Mortgage Sinking Fund Bonds:

Hudson's Bay Oil and Gas Company Limited	*Sinking Fund Credits*	*Amounts Due Within One Year*	*Long-Term Portion Outstanding*
4% Series A, due May 1, 1975—sinking fund requirements \$1,000,000 per annum 1967 to 1974 and \$10,000,000 at maturity	\$1,177,000	\$ —	\$16,823,000
5% Series B, due October 1, 1971—sinking fund requirements \$100,000 per annum 1967 to 1969, \$50,000 in 1970 and \$50,000 at maturity	—	100,000	300,000
5¾% Series C, due August 1, 1977—sinking fund requirements \$160,000 per annum 1967 to 1976 and \$100,000 at maturity	170,000	—	1,530,000
5½% Series D, due June 15, 1983—sinking fund requirements \$1,500,000 per annum 1968 to 1982 and \$7,500,000 at maturity	—	—	30,000,000
Total—December 31, 1966	\$1,347,000	\$100,000	\$48,653,000
Total—December 31, 1965	\$1,300,000	\$260,000	\$49,800,000

Sinking fund credits, established through the purchase and surrender to the trustee of bonds, have been treated as a reduction of the next succeeding sinking fund requirements for the respective series.

On January 3, 1967 the Company issued \$10,000,000, 7% Series E First Mortgage Sinking Fund Bonds dated January 3, 1967 to mature January 3, 1987. The sinking fund requirements are \$500,000 per annum in 1971 and 1972 and \$600,000 per annum for 1973 to 1987 inclusive.

The First Mortgage Sinking Fund Bonds are secured under a Deed of Trust and Mortgage by a fixed and specific mortgage and charge on certain petroleum and natural gas rights and by a first floating charge on all other property and assets of the Company, both present and future.

(10) Deferred Credit re Office Building:

On December 1, 1959 the Company sold its Calgary office building for \$4,380,000 and simultaneously leased the property at annual net rentals of 3½% of the selling price. Under the terms of the lease, the Company has an option, exercisable within eight months following the death of the lessor, to repurchase the property at the original selling price and cancel the lease, or to retain the lease at annual net rentals of 6¾% of the original selling price. The excess of the selling price over the depreciated value of the property at the date of sale and a charge in lieu of depreciation since that date have been recorded in the accounts as a deferred credit. The balance in this account will be credited to accumulated depreciation if the building is repurchased and otherwise will be credited against future rentals.

(11) Contingency:

The Company has issued to and deposited with the Governments of Canada, New Brunswick and Nova Scotia an aggregate of \$928,000 of non-interest bearing demand notes to be held as security for the performance of work obligations in respect of certain exploratory rights.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Hudson's Bay Oil and Gas Company Limited and subsidiary companies as of December 31, 1966 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings present fairly the financial position of the Company and subsidiary companies at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also in our opinion the accompanying consolidated statement of sources and uses of funds presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Alberta
February 3, 1967

Ten Year Financial an

			1966	1965
Financial Data	Gross operating revenues	$	52,482	47,217
	Net earnings (exclusive of special credits) (2)	$	17,371	15,355
	Per share	$	.95	.84
	Net cash income generated from operations	$	32,813	29,444
	Per share	$	1.79	1.61
	Dividend declared per share	$	.40	.40
	Working capital	$	1,730	(3,456)
	Long-term debt	$	66,653	55,300
	Shareholders' equity	$	118,300	108,247
Gross Property Accounts	Undeveloped acreage	$	28,598	28,145
	Fully or partially developed acreage		30,874	29,132
	Wells and related facilities		148,923	139,139
	Plants and related facilities		31,844	27,246
	Pipe line property		24,241	15,787
	Other		1,470	1,303
	Total property, plant and equipment, at cost	$	265,950	240,752
Expenditures for Finding and Developing Reserves	Exploration expenses			
	Geological, geophysical, and other exploration expenses	$	3,319	2,720
	Lease rentals		2,857	2,908
	Acreage acquisitions		3,775	7,847
	Exploratory and development drilling		11,925	9,413
	Lease and well equipment		2,839	2,740
	Plants and related facilities		4,788	5,861
	Total	$	29,503	31,489
Crude Oil and Natural Gas Liquids Production—Net (Barrels Per Day)	Alberta		32,369	31,212
	Saskatchewan		4,826	4,582
	British Columbia		5,247	3,083
	Other		14	13
	Total		42,456	38,890
Natural Gas Sales—Net	Millions of cubic feet per day		170	138
Sulphur Sales—Net	Long tons per day		386	343
Pipe Line Throughput	Barrels per day		56,123	57,502
Wells Completed	Net exploratory wells		58.5	40.3
	Net development wells		56.7	59.7
	Total net wells		115.2	100.0
	Total gross wells		222	195
Net Wells Capable of Production	Oil wells		957.1	919.7
	Gas wells		166.8	152.7
	Total		1,123.9	1,072.4
Net Acreage (Thousands of Acres)	Fully or partially developed		383	356
	Undeveloped		24,644	22,712
	Total		25,027	23,068
Employees and Shareholders	Number of employees		613	574
	Number of shareholders		9,859	10,674
	Shares outstanding		18,294,044	18,294,044

(1) With the exception of per share figures, dollar amounts are in thousands.

(2) Special credits were $856,000 in 1962, $265,000 in 1960, $943,000 in 1959, $2,472,000 in 1958 and $4,742,000 in 1957.

(3) Includes $27,866,000 acquisition costs of Consolidated Mic Mac Oils Ltd. and Security Freehold Petroleums Limited.

perating Review (1)

1964	1963	1962	1961	1960	1959	1958	1957
44,242	41,024	33,596	26,939	22,021	20,974	19,395	20,963
13,803	12,331	10,166	7,006	1,004	2,821	1,316	3,073
.75	.67	.57	.39	.06	.16	.07	.17
27,372	25,760	21,106	16,440	11,089	11,081	10,493	9,898
1.50	1.41	1.19	.93	.62	.62	.59	.56
.35	.30	.30	.20	—	—	—	—
(3,750)	(213)	(6,501)	(1,177)	7,797	13,293	12,480	15,155
51,000	52,570	23,539	25,018	26,400	26,500	27,600	28,600
100,210	92,810	77,479	71,781	68,324	67,055	63,291	59,503
21,302	19,254	13,021	9,652	9,647	8,422	7,142	6,559
28,617	28,259	10,257	9,687	8,012	6,184	5,464	5,124
132,633	122,549	102,877	94,201	87,869	80,433	73,032	66,163
21,378	16,078	13,328	12,398	4,735	3,331	2,212	—
15,001	14,204	11,908	8,655	6,564	6,334	5,634	4,908
1,187	1,126	1,160	1,098	1,088	1,105	4,893	4,810
220,118	201,470	152,551	135,691	117,915	105,809	98,377	87,564
2,570	2,269	2,535	1,841	2,251	1,678	1,664	2,246
2,224	2,191	2,027	2,032	2,169	2,346	2,362	2,853
3,037	28,534	4,320	2,138	3,344	2,297	1,126	2,053
10,549	12,489	8,746	6,378	6,683	5,867	8,387	10,032
4,075	4,570	3,034	3,431	5,532	4,542	2,162	3,606
5,350	2,812	1,899	6,849	1,175	1,119	2,212	—
27,805	52,865 (3)	22,561	22,669	21,154	17,849	17,913	20,790
31,612	29,660	25,731	23,971	20,285	19,168	17,953	20,097
4,294	3,799	3,265	2,668	2,386	2,026	2,117	2,144
2,220	2,216	1,354	178	10	51	15	—
10	11	4	5	8	9	14	16
38,136	35,686	30,354	26,822	22,689	21,254	20,099	22,257
117	105	82	60	44	44	14	8
245	237	132	5	—	—	—	—
58,817	53,724	42,678	30,759	23,597	22,062	17,719	1,865
41.6	35.6	21.9	18.3	21.3	26.9	30.3	32.9
78.0	89.9	86.0	60.6	59.8	74.4	71.9	74.8
119.6	125.5	107.9	78.9	81.1	101.3	102.2	107.7
225	249	164	126	140	185	192	184
917.2	877.0	754.6	698.6	646.6	605.8	552.9	543.0
136.2	125.3	97.4	88.0	80.0	71.2	67.1	53.6
1,053.4	1,002.3	852.0	786.6	726.6	677.0	620.0	596.6
347	321	274	242	164	135	125	100
11,685	12,786	11,422	11,650	13,431	11,407	10,022	10,361
12,032	13,107	11,696	11,892	13,595	11,542	10,147	10,461
506	475	454	425	407	412	396	356
11,548	12,526	11,038	11,485	11,956	12,171	12,738	12,941
18,294,044	18,294,044	17,744,592	17,744,592	17,744,592	17,744,592	17,744,592	17,744,592

Corporate Information

HUDSON'S BAY OIL AND GAS COMPANY LIMITED	Incorporated under the Laws of the Dominion of Canada
HEAD OFFICE	320 Seventh Avenue South West, Calgary, Alberta
SUBSIDIARY COMPANIES (all wholly-owned)	AURORA PIPE LINE COMPANY, incorporated by Special Act of the Parliament of Canada MIC MAC OILS (1963) LTD., incorporated under the Laws of the Province of Alberta RANGELAND PIPE LINE COMPANY LIMITED, incorporated under the Laws of the Province of Alberta SECURITY FREEHOLD PETROLEUMS LIMITED, incorporated under the Laws of the Dominion of Canada
TRANSFER AGENTS	MONTREAL TRUST COMPANY, Calgary, Toronto and Winnipeg MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York
STOCK EXCHANGE LISTING	TORONTO STOCK EXCHANGE
AUDITORS	PEAT, MARWICK, MITCHELL & CO., Calgary

1867 Centennial of Canadian Confederation 1967
Le Centenaire de la Confédération Canadienne

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